JANUARY 28, 2019

Weekly Market Update

General Market News

- The 10-year U.S. Treasury has been bouncing between 2.70 percent and 2.75 percent since January 8. It opened early Monday at 2.74 percent, while the 2-year opened at 2.60 percent and the 30-year opened at 3 percent. Parts of the curve remain inverted as rate investors wait to hear more information on trade, politics, and economic trends.
- The three major U.S. markets were relatively flat, and the week saw mixed trading. With growing global growth concerns, REITs, technology, and utilities were the only three positive sectors. The technology stocks were buoyed by better-than-expected guidance out of the semiconductor space, with Texas Instruments (TXN), Lam Research (LRCX), and STMicroelectronics (STM) all up more than 5 percent on the week.
- China reported growth in its gross domestic product (GDP) of just 6.6 percent on Monday. This is the lowest level since 1990. These growth concerns come ahead of U.S.-China trade talks, which are set to resume on Wednesday.
- Last week was relatively quiet on the economic update front, with only two major data releases. On Tuesday, existing home sales for December came in worse than expected, with a decline of 6.4 percent on a monthly basis.
- On Thursday, the Markit U.S. Manufacturing Purchasing Manager Index rose from 53.8 to 54.9. This was a positive development that indicates that manufacturers are still investing in their businesses in the face of the recent government shutdown.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.21	6.41	6.41	–4.28
Nasdaq Composite	0.11	8.01	8.01	–2.27
DJIA	0.12	6.16	6.16	–4.12
MSCI EAFE	0.48	5.53	5.53	–14.27
MSCI Emerging Markets	1.42	6.94	6.94	–15.93
Russell 2000	0.03	10.01	10.01	–6.18

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.28	0.28	1.05
U.S. Treasury	–0.18	–0.18	1.61
U.S. Mortgages	0.01	0.01	1.71
Municipal Bond	0.34	0.34	2.20

Source: Morningstar Direct

What to Look Forward To

This week will be a busy one on the economic front, although some reports may not be released due to the just-ended government shutdown.

On Tuesday, the Conference Board Consumer Confidence Index is expected to drop further after a surprise decline last month. It should go from 128.1 to 125, on rising concerns about the effects of the government shutdown. Even with the expected decline, confidence would remain at a healthy level and still be supportive of continued growth. But this drop could be a warning sign of weaker conditions ahead.

On Wednesday, the first estimate of economic growth for the fourth quarter of 2018 is due, although it may not be released as the government works at reopening. Growth in GDP is expected to drop from 3.4 percent in the third quarter to 2.5 percent in the fourth quarter, although there may be some upside risk on strong consumer spending.

Also on Wednesday, the meeting of the Federal Open Market Committee will conclude and be followed by a press conference. After the rate increase announced at the last meeting, markets are expecting rates to remain the same,

What to Look Forward To (continued)

and analysts will be looking to see whether the recent dovish tone on inflation has intensified. If so, markets could react positively.

On Thursday, the personal income and spending report for December is due, although (again) it may not be released. Income growth is expected to rise from 0.2 percent in November to 0.5 percent in December on strong job growth. Spending growth is expected to tick down from 0.4 percent in November to 0.3 percent for December, which would still be healthy.

On Friday, the employment report is expected to show that job growth decreased from an extremely strong 312,000 in December to 163,000 for January. The unemployment rate is expected to tick down from 3.9 percent in December to 3.8 percent for January. The job growth number will not include the federal workers currently on furlough, as they will be counted as employed. But these workers will show up in the unemployment index, which may push it up a bit above expectations. Wage growth is expected to tick down a bit, from 0.4 percent for December to 0.3 percent for January, on a monthly basis. The increase on an annual basis in wage growth is expected to stay steady at 3.2 percent. If the numbers come in as expected, this would be another healthy report and signal continued economic growth.

Finally on Friday, the Institute for Supply Management Manufacturing index is expected to increase slightly. It should go from 54.1 to 54.3 for January, after a surprise drop to a two-year low in December. This is a diffusion index, where values above 50 indicate expansion and below 50 indicate contraction. So, this index remains healthy. There is some downside risk here, on slowing global growth in general and the recent impact of the government shutdown. Uncertainty over trade policy remains a headwind as well. Even with a moderate pullback, however, this would still remain positive for the economy as a whole.

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